

ZION RECOVERY SERVICES, INC.

INDEPENDENT AUDITOR'S REPORTS
COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

YEARS ENDED JUNE 30, 2020 AND 2019

ZION RECOVERY SERVICES, INC.

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ZION RECOVERY SERVICES, INC.
Officials
June 30, 2020

Board of Directors:

Matt Wedemeyer, Chairperson

Brad Golightly, Vice-Chairperson

John Hartkopf, Secretary-Treasurer

Rudy Kinard

Terry Graham

Chuck Morris

Address

Casey, Iowa

Perry, Iowa

Atlantic, Iowa

Red Oak, Iowa

Sidney, Iowa

Clarinda, Iowa

Program Administrator:

Laurie Cooley

Anita, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

Report on the Financial Statements

We have audited the accompanying combined financial statements of Zion Recovery Services, Inc. (a nonprofit organization) and affiliate, which comprise the combined statements of financial position as of June 30, 2020 and 2019, and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Southwest Iowa Mental Health Center (SWIMHC), affiliate of Zion Recovery Services, Inc., as of and for the year ended June 30, 2019, which represent 30 percent, 30 percent, and 38 percent, respectively, of the assets, net assets, and revenues reported on the combined financial statements of Zion Recovery Services, Inc. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for SWIMHC, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

To the Board of Directors
Zion Recovery Services, Inc.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of Zion Recovery Services, Inc. and affiliate as of June 30, 2020 and 2019, and the changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The accompanying combined financial statements have been prepared assuming that SWIMHC will continue as a going concern. As indicated in Note I, SWIMHC's continued existence is dependent on the cooperation of Zion Recovery Services, Inc. Should the cooperation be discontinued, it would have a significant impact on SWIMHC's financial position and cash flows. The financial statements do not include any adjustments that might result from the outcome of the uncertainty. Our opinion is not modified with respect to this matter.

As discussed in Note L, the Agency may be adversely affected by the global Novel Coronavirus (COVID-19) pandemic. The Agency cannot at this time reasonably estimate the length or severity of this pandemic, or the extent to which the disruptions may impact the Agency's financial position, results of operations, or cash flows in 2021 and beyond. Our conclusion is not modified with respect to this matter.

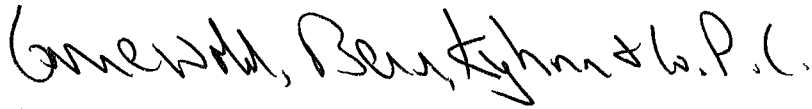
Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information on pages 19 through 29 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the supplementary information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

To the Board of Directors
Zion Recovery Services, Inc.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 2020 on our consideration of Zion Recovery Services, Inc. and affiliate's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Zion Recovery Services, Inc. and affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Zion Recovery Services, Inc. and affiliate's internal control over financial reporting and compliance.



Atlantic, Iowa
December 30, 2020

ZION RECOVERY SERVICES, INC.
Combined Statements of Financial Position
June 30,

ASSETS

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 1,198,346	\$ 653,889
Certificates of deposit	104,537	102,218
Accounts receivable, less allowance for doubtful accounts (\$511,000 in 2020 and \$419,500 in 2019)	529,428	292,985
Estimated third-party payor settlements	--	270,985
Grant receivables	88,801	158,238
Prepaid expense	<u>22,785</u>	<u>64,621</u>
Total current assets	1,943,897	1,542,936
Property and Equipment, Net	<u>515,379</u>	<u>10,427</u>
Total assets	<u>\$ 2,459,276</u>	<u>\$ 1,553,363</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current maturities of long-term debt	\$ 20,128	\$ --
Accounts payable	67,914	54,124
Accrued employee compensation	214,164	110,557
Payroll taxes withheld and accrued	59,563	45,776
PPP loan	<u>451,000</u>	<u>--</u>
Total current liabilities	812,769	210,457
Long-Term Liabilities:		
Long-term debt, net of current maturities	<u>373,339</u>	<u>--</u>
Total liabilities	1,186,108	210,457
Net Assets:		
Without donor restrictions	<u>1,273,168</u>	<u>1,342,906</u>
Total liabilities and net assets	<u>\$ 2,459,276</u>	<u>\$ 1,553,363</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Combined Statements of Activities and Changes in Net Assets
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Changes in Net Assets Without Donor Restrictions:		
Support and Revenue:		
Support:		
Iowa Department of Public Health -		
Comprehensive Treatment:		
Iowa Managed Substance Abuse		
Care Plan - Non-Medicaid	\$ 1,440,570	\$ 1,213,397
Other contract revenue	35,070	47,517
Prevention services	--	141,707
Safe harbor	614,261	--
Support from Region and County	16,000	16,000
Contributions	51,090	200
Total support	<u>2,156,991</u>	<u>1,418,821</u>
Revenue:		
Client fees, net	2,411,677	2,085,207
Federal probation	14,163	20,850
Interest income	3,854	5,228
Other revenues	122,238	25,976
Total revenue	<u>2,551,932</u>	<u>2,137,261</u>
Total Support and Revenue	4,708,923	3,556,082
Expenses:		
Salaries and wages	2,940,723	2,173,898
Employee benefits	749,388	609,613
Advertising and promotion	3,181	11,601
Provision for depreciation	8,106	5,643
Food costs	61,275	57,235
Insurance	13,874	14,721
Interest	5,300	--
Miscellaneous	115,551	43,306
Professional services	238,007	194,753
Rent	239,747	182,287
Repairs and maintenance	175,903	81,225
Supplies and other expense	87,450	118,274
Telephone	48,994	35,681
Training costs	11,518	12,844
Travel	41,768	45,694
Utilities	35,386	24,713
Total expenses	<u>4,776,171</u>	<u>3,611,488</u>
Operating Loss	(67,248)	(55,406)

(continued next page)

ZION RECOVERY SERVICES, INC.
Combined Statements of Activities and Changes in Net Assets - Continued
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Operating Loss	\$(67,248)	\$(55,406)
Other Support and Gains (Losses):		
Realized Loss on Disposal of Assets	<u>(2,490)</u>	<u>(60,000)</u>
Total other support and gains	<u>(2,490)</u>	<u>(60,000)</u>
Decrease in Net Assets Without Donor Restrictions before Forgiveness by Cass County Memorial Hospital	(69,738)	(115,406)
Sharing and Transition Services Agreement Forgiven by Cass County Memorial Hospital	<u>--</u>	<u>171,461</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	(69,738)	56,055
Net Assets at Beginning of Year	<u>1,342,906</u>	<u>1,286,851</u>
Net Assets at End of Year	<u>\$ 1,273,168</u>	<u>\$ 1,342,906</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Combined Statements of Cash Flows
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from clients, third-party payors, and court system	\$ 2,582,620	\$ 1,821,510
Contract funding received	2,175,338	1,469,049
Cash paid to suppliers and employees	(4,589,745)	(3,497,317)
Donations received	51,090	200
Interest received	3,854	5,228
Interest paid	(5,300)	--
Net cash provided by (used in) operating activities	217,857	(201,330)
Cash flows from investing activities:		
Capital expenditures	(515,548)	--
Redemption of certificates of deposit	--	478,417
Purchase of certificates of deposit	(2,319)	(479,532)
Net cash used in investing activities	(517,867)	(1,115)
Cash flows from financing activities:		
Proceeds from PPP loan	451,000	--
Debt proceeds	400,000	--
Principal payments	(6,533)	--
Net cash provided by financing activities	844,467	--
Net increase (decrease) in cash and cash equivalents	544,457	(202,445)
Cash and cash equivalents at beginning of year	<u>653,889</u>	<u>856,334</u>
Cash and cash equivalents at end of year	<u>\$ 1,198,346</u>	<u>\$ 653,889</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

Zion Recovery Services, Inc. (Agency) was created in 1973 as a non-profit corporation under the provisions of the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa. The Agency is a not for profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Agency is to provide for the care, maintenance, education and treatment of the substance abuser. The Agency presently serves the six-county area of Adair, Cass, Dallas, Fremont, Montgomery and Page Counties and maintains a residential facility for intermediate care in Clarinda, Iowa. The Board of Directors is made up of a representative from the County Board of Supervisors of each of the six counties in the service area. Each member serves an annual term. The Agency is a not-for-profit corporation chartered under the laws of the State of Iowa and is exempt from income tax under Section 501 of the Internal Revenue Code. The Agency is required to file a Form 990 (which is subject to audit by the Internal Revenue Service) annually, to maintain its exempt status.

The Southwest Iowa Mental Health Center (SWIMHC) is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. SWIMHC is established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness.

As of July 1, 2018 the Agency took over the management and operations of SWIMHC. Each organization will continue to operate as separate entities with some shared administrative costs, and will be under the control and oversight of the Agency's Board of Directors. Transactions and amounts owed between the Agency and SWIMHC have been eliminated in consolidation.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Grant revenues are for specific programs provided by the Agency and are recognized as income when grant requirements have been satisfied.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

4. Property and Equipment

Property and equipment is stated at cost. Property and equipment donated for Agency operations are recorded at fair value. The Agency computes depreciation using the straight-line method. Useful lives of equipment range from three to seven years. The useful lives of leasehold improvements range from five to fifteen years. Donations of property and equipment are capitalized at their estimated fair value at the date contributed. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Agency reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five years for furniture and vehicles to thirty years for buildings.

5. Unrestricted Revenues and Support

- a. Client fees are recorded net of adjustments for uncollectible accounts.
- b. The managed care contract revenues are recorded monthly as the services are performed.

6. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less and food stamps received for payment of client services to be cash equivalents.

7. Accounts Receivable

Accounts receivable are stated at their net realizable value and represent the amount of subsequent collections expected from various funding sources for billed and unbilled services performed prior to June 30, 2020.

8. Financial Statement Presentation

The Agency is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. However, the Agency has no net assets with donor restrictions as of June 30, 2020 and 2019.

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

Unconditional promises to give cash and other assets to the Agency are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts, which are generally considered non-exchange transactions, are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the organization, unless the donor provides more specific directions about the period of its use.

NOTE B - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 1,198,346	\$ 653,889
Certificates of deposit	104,537	102,218
Accounts and other receivables, net	618,229	722,208
Working capital investments in prepaid expense	<u>22,785</u>	<u>64,621</u>
Total financial assets available within one year	<u>\$ 1,943,897</u>	<u>\$ 1,542,936</u>

As part of the Agency's liquidity management, it has structured its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Agency invests cash in excess of daily requirements in short-term investments.

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE C - MANAGED CARE CONTRACT

The Agency's substance abuse treatment and rehabilitation services are being reimbursed under a managed care contract administered by Amerigroup Iowa, Inc. The Agency received approximately 47% (55% in 2019) of its total support and revenue through these contracts for the year ended June 30, 2020. The Agency's managed care contract for its current six county service area has been renewed for fiscal year ending June 30, 2021.

A summary of the payment arrangements with major third-party payors for SWIMHC is as follows:

Medicaid - On April 1, 2016 most Iowa Medicaid members were enrolled in Iowa Health Link. Iowa Health Link bring together physical, behavioral and long-term care under one program across Iowa which is covered by managed care organizations. Certain services are paid based on a fee schedule basis while other services are paid based on a cost reimbursement methodology. Cost reimbursement services are reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by SWIMHC and audits thereof by Iowa Medicaid Enterprise. SWIMHC's Medicaid cost reports have been audited and finalized by Iowa Medical Enterprise through June 30, 2019. Finalized cost reports are subject to reopening by Iowa Medicaid Enterprise.

Others - SWIMHC also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organization. The basis for payment to SWIMHC under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

In 2019, client service fees increased approximately \$240,000 due to the establishment third-party payor settlements for claims paid on the fee schedule that were previously estimated to not be eligible for cost based reimbursement.

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment is stated at acquisition cost. The cost by major category and accumulated depreciation at June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 51,200	\$ --
Building	448,800	--
Leasehold Improvements	16,545	995
Furniture and Equipment	<u>82,217</u>	<u>103,150</u>
	598,762	104,145
Less Accumulated Depreciation	<u>83,383</u>	<u>93,718</u>
	<u>\$ 515,379</u>	<u>\$ 10,427</u>

NOTE E - NOTES PAYABLE

The following is a summary of notes payable and related information at June 30, 2020:

Building	\$ 393,467
Less current maturities	<u>(20,128)</u>
	<u>\$ 373,339</u>

Building

The Building note payable was issued in February, 2020 to finance the purchase of a building. The note calls for a monthly principal and interest payment of \$2,958 at a fixed rate of 4.00% through April, 2025 when a balloon payment is due. The note is collateralized by the assets of the Agency.

Maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	
2021	\$ 20,128
2022	20,948
2023	21,802
2024	22,690
2025	<u>307,899</u>
Total	<u>\$ 393,467</u>

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE F - FUNCTIONAL CLASSIFICATION OF EXPENSES

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Agency. Those expenses include depreciation and administration. Depreciation and administration expenses are allocated based on estimates of time and effort.

Expenses by functional classification for the years ended June 30, 2020 and 2019 consist of the following:

	2020 - Combined		
	Program	Management and General	Total
Salaries and benefits	\$ 3,318,789	\$ 371,322	\$ 3,690,111
Professional fees	186,001	52,006	238,007
Supplies and other	678,876	161,071	839,947
Depreciation	5,764	2,342	8,106
	<u>\$ 4,189,430</u>	<u>\$ 586,741</u>	<u>\$ 4,776,171</u>
	2019 - Combined		
	Program	Management and General	Total
Salaries and benefits	\$ 2,395,889	\$ 387,622	\$ 2,783,511
Professional fees	171,042	23,711	194,753
Supplies and other	501,119	126,462	627,581
Depreciation	4,471	1,172	5,643
	<u>\$ 3,072,521</u>	<u>\$ 538,967</u>	<u>\$ 3,611,488</u>

NOTE G - CONCENTRATION OF CREDIT RISK

The Agency grants credit without collateral to its clients, most of whom are residents of the six county service area. The mix of receivables from patients and third-party payors at June 30, was as follows:

	2020	2019
Medicare	11%	9%
Medicaid	36	30
Other third-party payors	15	13
Client accounts	38	48
	<u>100%</u>	<u>100%</u>

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE H - PENSION PLAN

Iowa Public Employees Retirement System

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is identified as a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at www.ipers.org.

Plan members are required to contribute 6.29% of their annual salary and the Agency is required to contribute 9.44% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the year ended June 30, 2020 was approximately \$247,900 (\$190,000 in 2019), equal to the required contribution for the year.

NOTE I - LEASE OBLIGATIONS

The Agency has entered into agreements to lease office space under noncancellable operating leases with various lease terms. Lease payments under these agreements for the year ended June 30, 2020 were \$47,900 (\$14,000 in 2019). Future minimum payments under the agreements for the years subsequent to June 30, 2020 are as follows:

2021	\$	28,400
2022		12,500
2023		<u>12,500</u>
	\$	<u>53,400</u>

The Agency also has entered into agreements to lease their residential care facility and other office space from various property owners, and some equipment on a month to month basis. Total lease expense associated with these leases was \$115,347 in 2020 (\$124,887 in 2019).

NOTE J - RELATED ORGANIZATION

The Agency provides administrative support to SWIMHC. Support provided includes contracting administrative personnel to SWIMHC, paying payroll related expenses of SWIMHC and maintaining the accounting records for SWIMHC.

Transition Services and Consulting and Management Services Agreements

Effective December 31, 2017 SWIMHC entered into a transition services agreement with the Hospital and Zion Recovery Services, Inc. (Zion) as well as a consulting and management services agreement with Zion. Under the transition services agreement, the Hospital provided a monthly subsidy from January 1, 2018 through June 30, 2018 to assist SWIMHC in covering operating expenses during the transition period totaling \$640,000. Any excess of the monthly subsidy received over expenses incurred was to be paid back to the Hospital. During 2019, the Hospital forgave the \$171,461 SWIMHC transition services agreement payable.

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE J - RELATED ORGANIZATION - Continued

Under the management services agreement, SWIMHC purchased all physician and non-physician services necessary for SWIMHC's operations from Zion. Zion provides management services and equipment necessary for SWIMHC to continue its mission. The initial term of the consulting and management services agreement is through June 30, 2021.

Economic Dependency

SWIMHC remains dependent on its ability to generate profits in future years and has developed operating strategies under its new management services agreement with Zion to leverage economies of scale and reduce operating overhead. Should SWIMHC encounter operating shortfalls, Zion has pledged to provide the support necessary to provide mental health services to the area through June 30, 2021. Should Zion decide to discontinue its support, SWIMHC's ability to continue operations would be in doubt.

Related Party Transactions

Below is a summary of activity and year end amounts due under the agreement with the Hospital:

	<u>2019</u>
Statements of activities and changes in net assets -	
SWIMHC expense for personnel and other costs	\$ 91,550
Transition services agreement payable forgiven by Hospital	171,461

In addition, during the year ended June 30, 2015, SWIMHC and Cass County Memorial Hospital reached an agreement for SWIMHC to sell its building to the Hospital in exchange for \$240,000 of prepaid rent through August, 2019. Rent expense of \$8,600 for the fiscal year ended June 30, 2020 (\$43,000 in 2019) was reported as a result of the amortization of prepaid rent.

NOTE K - PAYCHECK PROTECTION PROGRAM LOAN (PPP LOAN)

The Paycheck Protection Program Loan was issued in April, 2020 in a principal amount of \$451,000 for the purpose of protecting payroll during the COVID-19 pandemic. The loan carries an interest rate of 1% on any amount that needs to be repaid but is subject to be forgiven. The Agency has elected to account for the loan in accordance with FASB ASC 470 and derecognize the liability in part or whole, when they have been legally released from the debt. The Agency expects all proceeds to be forgiven.

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE L - MATTERS AFFECTING CURRENT AND SUBSEQUENT YEARS OPERATIONS

On March 11, 2020 the World Health Organization declared the Novel Coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Agency limited operations per recommendations of the Governor and Department of Public Health and remained limited through the end of the fiscal year. The Agency cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Agency's financial position, result of its changes in net position or cash flows in 2021 and after.

NOTE M - NEW ACCOUNTING GUIDANCE IMPLEMENTATION

ASU No. 2018-08

During the year ended June 30, 2020, the Agency adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. Analysis of the various provisions of this standard resulted in no significant changes in the way the Agency recognizes contributions received.

ASU No. 2014-09

The Financial Accounting Standards Board (FASB) also issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. Collectively, the new Topic 606 and Subtopic 340-40 are referred to as the "new guidance."

The Agency adopted the requirements of the new guidance as of July 1, 2019, utilizing the modified retrospective method of transition. Adoption of the new guidance resulted in changes to the Agency's accounting policies for revenue and cost recognition, previously described.

The difference to net service revenue and receivables as of and for the year ended June 30, 2019 under the new guidance as opposed to the prior revenue recognition guidance was determined to be immaterial. Accordingly, no adjustment to beginning net assets was necessary.

ZION RECOVERY SERVICES, INC.
Notes to Combined Financial Statements
June 30, 2020 and 2019

NOTE N - CONTINGENCIES

Risk Management

The Agency is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Zion Recovery Services, Inc. is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Off-Balance Sheet Risk

The Agency maintains its deposits at several banks in the area. At various times throughout the year and at year end, the deposits in two of the banks exceeded the FDIC insured deposits limit for one entity (by approximately \$599,500 for the banks at year end). Management of the Agency has received no indication of any potential viability problems with the banks by the date of this report.

Subsequent Events

The Agency has evaluated all subsequent events through December 30, 2020, the date the financial statements were available to be issued.

* * *

SUPPLEMENTARY INFORMATION

ZION RECOVERY SERVICES, INC.
Combining Statement of Financial Position
June 30, 2020

ASSETS

	<u>Zion</u>	<u>SWIMHC</u>	<u>Elimination</u>	<u>Total</u>
Current Assets:				
Cash and cash equivalents	\$ 1,150,902	\$ 47,444	\$ --	\$ 1,198,346
Certificates of deposit	104,537	--	--	104,537
Accounts receivable, less \$511,000 allowance for doubtful accounts	284,867	244,561	--	529,428
Grant receivables	88,801	--	--	88,801
Related party receivable	263,271	--	(263,271)	--
Prepaid expense	18,690	4,095	--	22,785
Total current assets	1,911,068	296,100	(263,271)	1,943,897
Property and Equipment, Net	512,176	3,203	--	515,379
Total assets	<u>\$ 2,423,244</u>	<u>\$ 299,303</u>	<u>\$(263,271)</u>	<u>\$ 2,459,276</u>

LIABILITIES AND NET ASSETS

Current Liabilities:				
Current maturities of long-term debt	\$ 20,128	\$ --	\$ --	\$ 20,128
Accounts payable	49,773	18,141	--	67,914
Accrued employee compensation	205,295	8,869	--	214,164
Payroll taxes withheld and accrued	59,563	--	--	59,563
Related party payable	--	263,271	(263,271)	--
PPP loan	451,000	--	--	451,000
Total current liabilities	785,759	290,281	(263,271)	812,769
Long-Term Liabilities:				
Long-term debt, net of current maturities	373,339	--	--	373,339
Total liabilities	1,159,098	290,281	(263,271)	1,186,108
Net Assets:				
Without donor restrictions	1,264,146	9,022	--	1,273,168
Total liabilities and net assets	<u>\$ 2,423,244</u>	<u>\$ 299,303</u>	<u>\$(263,271)</u>	<u>\$ 2,459,276</u>

See Independent Auditor's Report.

ZION RECOVERY SERVICES, INC.
Combining Statement of Financial Position
June 30, 2019

ASSETS

	<u>Zion</u>	<u>SWIMHC</u>	<u>Elimination</u>	<u>Total</u>
Current Assets:				
Cash and cash equivalents	\$ 596,113	\$ 57,776	\$ --	\$ 653,889
Certificates of deposit	102,218	--	--	102,218
Accounts receivable, less \$419,500 allowance for doubtful accounts	170,815	122,170	--	292,985
Estimated third-party payor settlements	--	270,985	--	270,985
Grant receivables	158,238	--	--	158,238
Related party receivable	50,089	--	(50,089)	--
Prepaid expense	50,577	14,044	--	64,621
Total current assets	1,128,050	464,975	(50,089)	1,542,936
Property and Equipment, Net	4,971	5,456	--	10,427
Total assets	<u>\$ 1,133,021</u>	<u>\$ 470,431</u>	<u>\$(50,089)</u>	<u>\$ 1,553,363</u>

LIABILITIES AND NET ASSETS

Current Liabilities:				
Accounts payable	\$ 42,023	\$ 12,101	\$ --	\$ 54,124
Accrued employee compensation	110,557	--	--	110,557
Payroll taxes withheld and accrued	45,776	--	--	45,776
Related party payable	--	50,089	(50,089)	--
Total current liabilities	198,356	62,190	(50,089)	210,457
Net Assets:				
Without donor restrictions	934,665	408,241	--	1,342,906
Total liabilities and net assets	<u>\$ 1,133,021</u>	<u>\$ 470,431</u>	<u>\$(50,089)</u>	<u>\$ 1,553,363</u>

See Independent Auditor's Report.

ZION RECOVERY SERVICES, INC.
Combining Statement of Activities and Changes in Net Assets
Year ended June 30, 2020

	<u>Zion</u>	<u>SWIMHC</u>	<u>Total</u>
Changes in Net Assets Without Donor Restrictions:			
Support and Revenue:			
Support:			
Iowa Department of Public Health - Comprehensive Treatment:			
Iowa Managed Substance Abuse Care Plan - Non-Medicaid	\$ 1,440,570	\$ --	\$ 1,440,570
Other contract revenue	35,070	--	35,070
Safe harbor	614,261	--	614,261
Support from Region and County	--	16,000	16,000
Contributions	51,090	--	51,090
Total support	<u>2,140,991</u>	<u>16,000</u>	<u>2,156,991</u>
Revenue:			
Client fees, net	870,293	1,541,384	2,411,677
Federal probation	14,163	--	14,163
Interest income	3,429	425	3,854
Other revenues	28,528	93,710	122,238
Total revenue	<u>916,413</u>	<u>1,635,519</u>	<u>2,551,932</u>
Total Support and Revenue	3,057,404	1,651,519	4,708,923

(continued next page)

ZION RECOVERY SERVICES, INC.
Combining Statement of Activities and Changes in Net Assets - Continued
Year ended June 30, 2020

	<u>Zion</u>	<u>SWIMHC</u>	<u>Total</u>
Expenses:			
Salaries and wages	\$ 1,540,594	\$ 1,400,129	\$ 2,940,723
Employee benefits	444,346	305,042	749,388
Advertising and promotion	3,181	--	3,181
Provision for depreciation	5,855	2,251	8,106
Food costs	61,275	--	61,275
Insurance	13,874	--	13,874
Interest	5,300	--	5,300
Miscellaneous	95,022	20,529	115,551
Professional services	207,481	30,526	238,007
Rent	163,247	76,500	239,747
Repairs and maintenance	46,575	129,328	175,903
Supplies and other expense	44,720	42,730	87,450
Telephone	35,119	13,875	48,994
Training costs	5,171	6,347	11,518
Travel	33,669	8,099	41,768
Utilities	20,004	15,382	35,386
Total expenses	<u>2,725,433</u>	<u>2,050,738</u>	<u>4,776,171</u>
Operating Income (Loss)	331,971	(399,219)	(67,248)
Realized Loss on Disposal of Assets	<u>(2,490)</u>	<u>--</u>	<u>(2,490)</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	329,481	(399,219)	(69,738)
Net Assets at Beginning of Year	<u>934,665</u>	<u>408,241</u>	<u>1,342,906</u>
Net Assets at End of Year	<u>\$ 1,264,146</u>	<u>\$ 9,022</u>	<u>\$ 1,273,168</u>

See Independent Auditor's Report.

ZION RECOVERY SERVICES, INC.
Combining Statement of Activities and Changes in Net Assets
Year ended June 30, 2019

	<u>Zion</u>	<u>SWIMHC</u>	<u>Total</u>
Changes in Net Assets Without Donor Restrictions:			
Support and Revenue:			
Support:			
Iowa Department of Public Health - Comprehensive Treatment:			
Iowa Managed Substance Abuse Care Plan - Non-Medicaid	\$ 1,213,397	\$ --	\$ 1,213,397
Other contract revenue	47,517	--	47,517
Prevention services	141,707	--	141,707
Support from Region and County	--	16,000	16,000
Contributions	200	--	200
Total support	<u>1,402,821</u>	<u>16,000</u>	<u>1,418,821</u>
Revenue:			
Client fees, net	736,026	1,349,181	2,085,207
Federal probation	20,850	--	20,850
Interest income	4,619	609	5,228
Other revenues	25,751	225	25,976
Total revenue	<u>787,246</u>	<u>1,350,015</u>	<u>2,137,261</u>
Total Support and Revenue	2,190,067	1,366,015	3,556,082

(continued next page)

ZION RECOVERY SERVICES, INC.
Combining Statement of Activities and Changes in Net Assets - Continued
Year ended June 30, 2019

	<u>Zion</u>	<u>SWIMHC</u>	<u>Total</u>
Expenses:			
Salaries and wages	\$ 1,171,348	\$ 1,002,550	\$ 2,173,898
Employee benefits	368,649	240,964	609,613
Advertising and promotion	11,601	--	11,601
Provision for depreciation	2,930	2,713	5,643
Food costs	57,235	--	57,235
Insurance	14,721	--	14,721
Miscellaneous	37,128	6,178	43,306
Professional services	187,830	6,923	194,753
Rent	139,287	43,000	182,287
Repairs and maintenance	45,908	35,317	81,225
Supplies and other expense	95,181	23,093	118,274
Telephone	29,695	5,986	35,681
Training costs	10,675	2,169	12,844
Travel	33,693	12,001	45,694
Utilities	5,722	18,991	24,713
Total expenses	<u>2,211,603</u>	<u>1,399,885</u>	<u>3,611,488</u>
Operating Loss	(21,536)	(33,870)	(55,406)
Realized Loss on Disposal of Assets	<u>(20,000)</u>	<u>(40,000)</u>	<u>(60,000)</u>
Decrease in Net Assets Without Donor Restrictions before Forgiveness by Cass County Memorial Hospital	(41,536)	(73,870)	(115,406)
Sharing and Transition Services Agreement Forgiven by Cass County Memorial Hospital	<u>--</u>	<u>171,461</u>	<u>171,461</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	(41,536)	97,591	56,055
Net Assets at Beginning of Year	<u>976,201</u>	<u>310,650</u>	<u>1,286,851</u>
Net Assets at End of Year	<u>\$ 934,665</u>	<u>\$ 408,241</u>	<u>\$ 1,342,906</u>

See Independent Auditor's Report.

ZION RECOVERY SERVICES, INC.
Statements of Financial Position - Zion Recovery Services
As of June 30,

ASSETS

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 1,150,902	\$ 596,113
Certificates of deposit	104,537	102,218
Accounts receivable, less allowance for doubtful accounts (\$156,000 in 2020 and \$106,000 in 2019)	284,867	170,815
Grant receivables	88,801	158,238
Related party receivable	263,271	50,089
Prepaid expense	<u>18,690</u>	<u>50,577</u>
Total current assets	1,911,068	1,128,050
Property and Equipment, Net	<u>512,176</u>	<u>4,971</u>
Total assets	<u>\$ 2,423,244</u>	<u>\$ 1,133,021</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current maturities of long-term debt	\$ 20,128	\$ --
Accounts payable	49,773	42,023
Accrued employee compensation	205,295	110,557
Payroll taxes withheld and accrued	59,563	45,776
PPP loan	<u>451,000</u>	<u>--</u>
Total current liabilities	785,759	198,356
Long-Term Liabilities:		
Long-term debt, net of current maturities	<u>373,339</u>	<u>--</u>
Total liabilities	1,159,098	198,356
Net Assets:		
Without donor restrictions	<u>1,264,146</u>	<u>934,665</u>
Total liabilities and net assets	<u>\$ 2,423,244</u>	<u>\$ 1,133,021</u>

See Independent Auditor's Report.

ZION RECOVERY SERVICES, INC.
Statements of Activities and Changes in Net Assets - Zion Recovery Services
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Changes in Net Assets Without Donor Restrictions:		
Support and Revenue:		
Support:		
Iowa Department of Public Health -		
Comprehensive Treatment:		
Iowa Managed Substance Abuse		
Care Plan - Non-Medicaid	\$ 1,440,570	\$ 1,213,397
Other contract revenue	35,070	47,517
Prevention services	--	141,707
Safe harbor	614,261	--
Contributions	<u>51,090</u>	<u>200</u>
Total support	2,140,991	1,402,821
Revenue:		
Client fees, net	870,293	736,026
Federal probation	14,163	20,850
Interest income	3,429	4,619
Other revenues	<u>28,528</u>	<u>25,751</u>
Total revenue	916,413	787,246
Total Support and Revenue	3,057,404	2,190,067
Expenses:		
Salaries and wages	1,540,594	1,171,348
Employee benefits	444,346	368,649
Advertising and promotion	3,181	11,601
Provision for depreciation	5,855	2,930
Food costs	61,275	57,235
Insurance	13,874	14,721
Interest	5,300	--
Miscellaneous	95,022	37,128
Professional services	207,481	187,830
Rent	163,247	139,287
Repairs and maintenance	46,575	45,908
Supplies and other expense	44,720	95,181
Telephone	35,119	29,695
Training costs	5,171	10,675
Travel	33,669	33,693
Utilities	<u>20,004</u>	<u>5,722</u>
Total expenses	2,725,433	2,211,603
Operating Income (Loss)	331,971	(21,536)
Realized Loss on Disposal of Assets	<u>(2,490)</u>	<u>(20,000)</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	329,481	(41,536)
Net Assets at Beginning of Year	<u>934,665</u>	<u>976,201</u>
Net Assets at End of Year	<u>\$ 1,264,146</u>	<u>\$ 934,665</u>

See Independent Auditor's Report.

ZION RECOVERY SERVICES, INC.
Statements of Financial Position - Southwest Iowa Mental Health Center
As of June 30,

ASSETS

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 47,444	\$ 57,776
Accounts receivable, less allowance for doubtful accounts (\$355,000 in 2020 and \$313,500 in 2019)	244,561	122,170
Estimated third-party payor settlements	--	270,985
Prepaid expense	<u>4,095</u>	<u>14,044</u>
Total current assets	296,100	464,975
Property and Equipment, Net	<u>3,203</u>	<u>5,456</u>
Total assets	<u>\$ 299,303</u>	<u>\$ 470,431</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 18,141	\$ 12,101
Accrued employee compensation	8,869	--
Related party payable	<u>263,271</u>	<u>50,089</u>
Total current liabilities	290,281	62,190
Net Assets:		
Without donor restrictions	<u>9,022</u>	<u>408,241</u>
Total liabilities and net assets	<u>\$ 299,303</u>	<u>\$ 470,431</u>

See Independent Auditor's Report.

ZION RECOVERY SERVICES, INC.
Statement of Activities and Changes in Net Assets - Southwest Iowa Mental Health Center
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Changes in Net Assets Without Donor Restrictions:		
Support and Revenue:		
Support:		
Support from Region and County	\$ 16,000	\$ 16,000
Total support	<u>16,000</u>	<u>16,000</u>
Revenue:		
Client fees, net	1,541,384	1,349,181
Interest income	425	609
Other revenues	93,710	225
Total revenue	<u>1,635,519</u>	<u>1,350,015</u>
Total Support and Revenue	1,651,519	1,366,015
Expenses:		
Salaries and wages	1,400,129	1,002,550
Employee benefits	305,042	240,964
Provision for depreciation	2,251	2,713
Miscellaneous	20,529	6,178
Professional services	30,526	6,923
Rent	76,500	43,000
Repairs and maintenance	129,328	35,317
Supplies and other expense	42,730	23,093
Telephone	13,875	5,986
Training costs	6,347	2,169
Travel	8,099	12,001
Utilities	15,382	18,991
Total expenses	<u>2,050,738</u>	<u>1,399,885</u>
Operating Loss	(399,219)	(33,870)
Other Support and Gains:		
Realized Loss on Disposal of Assets	<u>--</u>	(40,000)
Total other support and gains	<u>--</u>	<u>(40,000)</u>
Decrease in Net Assets Without Donor Restrictions before Forgiveness by Cass County Memorial Hospital	(399,219)	(73,870)
Sharing and Transition Services Agreement Forgiven by Cass County Memorial Hospital	<u>--</u>	<u>171,461</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	(399,219)	97,591
Net Assets at Beginning of Year	<u>408,241</u>	<u>310,650</u>
Net Assets at End of Year	<u>\$ 9,022</u>	<u>\$ 408,241</u>

See Independent Auditor's Report.

ZION RECOVERY SERVICES, INC.
Statements of Expenditures by Activity - Zion Recovery Services
Year ended June 30,

	2020					2019
	Outpatient Services	Residential Services	Prevention Services	Other Services	Total	Total
Salaries and wages	\$ 748,275	\$ 331,847	\$ 123,793	\$ 336,679	\$1,540,594	\$1,171,348
Employee benefits	203,085	100,283	41,865	99,113	444,346	368,649
Advertising and promotion	3,181	--	--	--	3,181	11,601
Provision for depreciation	5,855	--	--	--	5,855	2,930
Food costs	--	53,403	--	7,872	61,275	57,235
Insurance	10,600	3,274	--	--	13,874	14,721
Interest	5,300	--	--	--	5,300	--
Miscellaneous	22,465	135	--	72,422	95,022	37,128
Professional services	139,994	48,749	--	18,738	207,481	187,830
Rent	75,613	23,775	--	63,859	163,247	139,287
Repairs and maintenance	39,411	5,284	--	1,880	46,575	45,908
Supplies and other expense	20,931	7,275	14,601	1,913	44,720	95,181
Telephone	30,681	2,230	--	2,208	35,119	29,695
Training costs	1,885	2,509	--	777	5,171	10,675
Travel	8,451	750	--	24,468	33,669	33,693
Utilities	8,203	--	--	11,801	20,004	5,722
	<u>\$1,323,930</u>	<u>\$ 579,514</u>	<u>\$ 180,259</u>	<u>\$ 641,730</u>	<u>\$2,725,433</u>	<u>\$2,211,603</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Zion Recovery Services, Inc. and affiliate, as of and for the year ended June 30, 2020, and the related notes to financial statements, and have issued our report thereon dated December 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Zion Recovery Services, Inc.'s internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Zion Recovery Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Zion Recovery Services, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 20-I-A through 20-I-C.

To the Board of Directors
Zion Recovery Services, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Zion Recovery Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Response to Finding

Zion Recovery Services, Inc.'s response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Zion Recovery Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gene Wald, Ben, Lyhan & Co. P.C.

Atlantic, Iowa
December 30, 2020

ZION RECOVERY SERVICES, INC.

Schedule of Findings and Responses

Year ended June 30, 2020

PART I - INTERNAL CONTROL DEFICIENCIES

20-I-A Segregation of Duties:

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Agency's financial statements.

Condition: A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause: The Agency has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect: Inadequate segregation of duties could adversely affect the Agency's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation: We recognize that it may not be economically feasible for the Agency to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Agency to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

ZION RECOVERY SERVICES, INC.

Schedule of Findings and Responses

Year ended June 30, 2020

PART I - INTERNAL CONTROL DEFICIENCIES - Continued

20-I-B Board of Directors Minutes:

Criteria: Board of Directors meeting minutes review ensures the minutes are accurate.

Condition: We identified several meeting minutes not signed by a Board member.

Cause: Due to limited training, Board minutes were not signed noting they had been reviewed and approved.

Effect: Without documentation of being reviewed, the minutes could not be assured of being an accurate depiction of Board meetings.

Recommendation: The Board of Directors should sign the minutes at the following meeting when the minutes are read and approved.

Response: Management agrees with the recommendation and will have future minutes signed at the meeting they are approved.

Conclusion: Response accepted.

20-I-C Year End Entries:

Criteria: The design or operation of the Agency's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.

Condition: We identified material misstatements in the financial statements during the audit that were not detected and corrected by the Agency's internal controls.

Cause: Management maintains mostly cash basis trial balance with limited accrual basis reconciliations at fiscal year end.

Effect: Numerous audit journal entries were required to reflect accrual basis accounting within the financial statements.

Recommendation: Management should perform accrual basis reconciliations at fiscal year end.

Response: Management agrees with the recommendation and will review its policies and procedures over year end reconciliations.

Conclusion: Response accepted.

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